



Legislative Audit Division

State of Montana

Report to the Legislature

November 2004

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2004

Department of Corrections

This report contains four recommendations to the Department of Corrections. Issues in the report include:

- ▶ **Controls over accounts receivable**
- ▶ **Compliance with state law and policy regarding:**
 - **Probation and Parole Officer training**
 - **Contracts**
 - **Non-treasury cash account reconciliations**

**Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705**

04-15

Help eliminate fraud, waste, and abuse in state government. Call the Fraud Hotline at 1-800-222-4446 statewide or 444-4446 in Helena.

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator John Cobb
Senator Mike Cooney
Senator Jim Elliott, Vice Chair
Senator John Esp
Senator Dan Harrington
Senator Corey Stapleton

Representative Dee Brown
Representative Tim Callahan
Representative Hal Jacobson
Representative John Musgrove
Representative Jeff Pattison, Chair
Representative Rick Ripley

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

November 2004

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report for the Department of Corrections for the two fiscal years ended June 30, 2004. This report contains four recommendations regarding controls over accounts receivable and compliance with state law and policy regarding probation and parole officer training, contracts, and non-treasury cash accounts. The department's written response to audit recommendations is included at the end of the audit report.

We thank the director and his staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

(Signature on File)

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2004

Department of Corrections

Members of the audit staff involved in this audit were Pearl M. Allen, Jeane Carstensen-Garrett, Danielle Gamradt, Geri Hoffman, and Hollie Koehler.

Table of Contents

Appointed and Administrative Officials	ii
Report Summary	S-1
Introduction.....	1
Introduction and Scope	1
Background.....	1
Administration and Support Services	4
Community Corrections	4
Juvenile Corrections	4
Secure Custody Facilities	5
Montana Correctional Enterprise.....	5
Prior Audit Recommendations.....	5
Findings and Recommendations.....	7
Controls Over Accounts Receivable.....	7
Probation and Parole Officer Training.....	9
Contract Procedures.....	10
Untimely Non-Treasury Cash Account Reconciliations.....	11
Independent Auditor's Report & Department Financial Schedules	A-1
Independent Auditor's Report	A-3
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2004.....	A-5
Schedule of Changes in Fund Balances & Property Held in Trust for the Fiscal Year Ended June 30, 2003.....	A-6
Schedule of Total Revenues & Transfers-In For the Fiscal Year Ended June 30, 2004	A-7
Schedule of Total Revenues & Transfers-In For the Fiscal Year Ended June 30, 2003	A-8
Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2004	A-9
Schedule of Total Expenditures & Transfers-Out For the Fiscal Year Ended June 30, 2003	A-10
Notes to Financial Schedules.....	A-11
Department Response.....	B-1
Department of Corrections.....	B-3

Appointed and Administrative Officials

Director's Office	Bill Slaughter, Director
Centralized Services	Joe Williams, Division Administrator
Adult Community Corrections	Mike Ferriter, Division Administrator
Juvenile Corrections	Steve Gibson, Division Administrator
Secure Custody Facilities	Mike Mahoney, Warden, Montana State Prison Jo Acton, Warden, Montana Women's Prison
Montana Correctional Enterprises	Gayle Lambert, Acting Division Administrator

Board of Pardons and Parole

		<u>Term Expires</u>
Kenneth Peterson	Chair	1/1/07
Mark Fournier	Member	1/1/05
Roxanna Wilson	Member	1/1/06
Daryl Dupuis	Auxiliary Member	1/1/06
Don Hargrove	Auxiliary Member	1/1/07
Sheryl Hoffarth	Auxiliary Member	1/1/05
Matt McCann	Auxiliary Member	1/1/05
Craig Thomas	Executive Secretary	

For additional information concerning the Department of Corrections, contact Sally Hilander, Public Information Officer, at:

PO Box 201301
Helena MT 59620-1301
(406) 444-7461
e-mail: shilander@state.mt.us

Department of Corrections

This financial-compliance audit report contains the results of our audit of the Department of Corrections for the two fiscal years ended June 30, 2004. We issued an unqualified opinion on the financial schedules contained in this report for fiscal years 2002-03 and 2003-04. This means the reader can rely on the financial information presented and the supporting detailed information on the state's accounting records.

This report contains four recommendations. The recommendations relate to controls over accounts receivable and compliance with state law and policy regarding probation and parole officer training, contracts, and non-treasury cash account reconciliations.

The prior audit report contained seven recommendations. The department implemented five recommendations, did not implement one recommendation, and one recommendation is no longer applicable due to a change in state law.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department:

- A. Work with DPHHS to record appropriate adjusting entries on the accounting system.
- B. Establish controls over accounts receivable to ensure balances on the accounting records are accurate. 8

Department Response: Concur. See page B-3.

Recommendation #2

We recommend the department implement controls to ensure probation and parole officers receive the training required by state law and department policy. 9

Department Response: Concur. See page B-4.

Report Summary

Recommendation #3

We recommend the department:

- A. Implement and enforce contracting policy to ensure contracts are signed in a timely manner.
- B. Comply with state law and department policies and procedures for bidding contracts exceeding \$5,000 11

Department Response: Concur. See page B-4.

Recommendation #4

We recommend the department strengthen non-treasury cash account controls and improve compliance with state policy by performing timely account reconciliations..... 12

Department Response: Concur. See page B-5.

Introduction

Introduction and Scope

We performed a financial-compliance audit of the Department of Corrections (department) for the two fiscal years ended June 30, 2004. The objectives of the audit were to:

1. Review the department's control systems and make recommendations for the improvement of management and internal controls of the department.
2. Determine if the department complied with selected state and federal laws and regulations.
3. Determine the implementation status of recommendations made in the prior audit.
4. Determine if the department's financial schedules present fairly, in accordance with state accounting policy, the result of operations for the audit period.

This report contains four recommendations to the department. Areas of concern deemed not to have a significant effect on the successful operation of department programs are not specifically included in the report but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

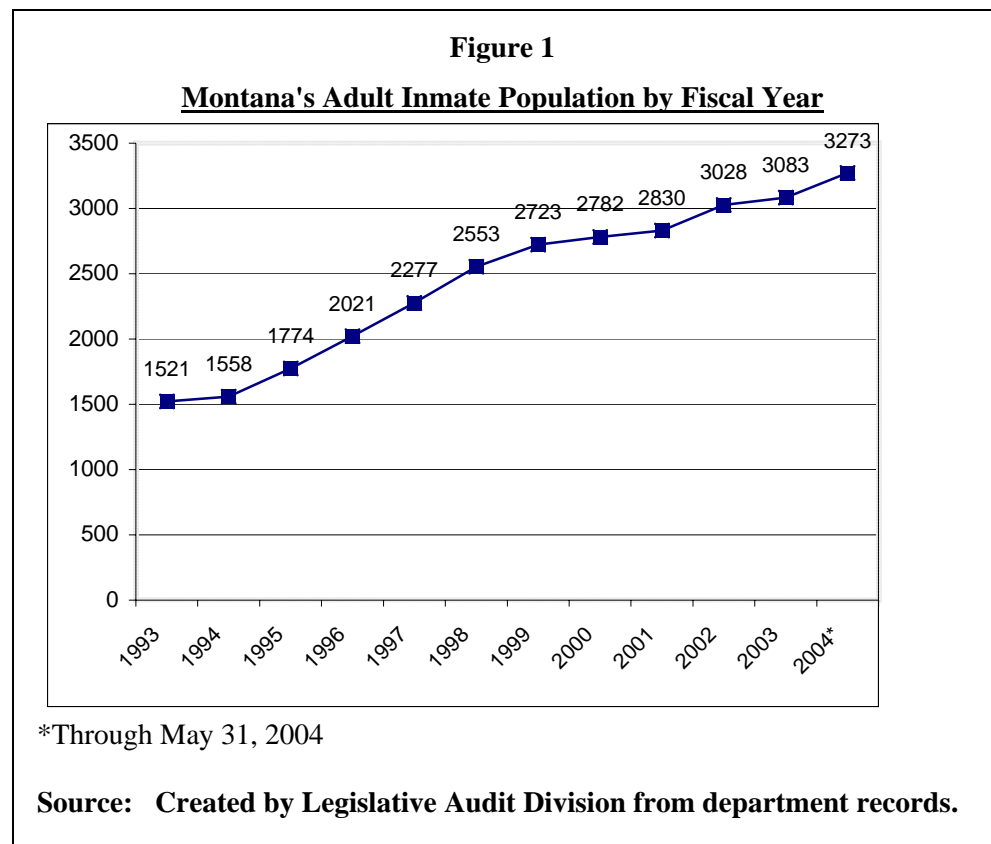
As required by section 17-8-101(6), MCA, we audited and are reporting on the reasonableness of Internal Service Fund fees and fund equity balances at the department. We reviewed the Internal Service Fund activity of the prison industries training program and determined the rates are not commensurate with costs for fiscal years 2002-03 and 2003-04. However, because this program provides training and education for inmates, it does not have to be self-supporting as stated in 53-30-133(1)(a), MCA. We also reviewed the Montana State Prison cook/chill operations and determined the rates were commensurate with costs during the audit period.

Background

The Department of Corrections is dedicated to public safety and trust by holding adult and juvenile offenders accountable for their actions against victims through custody, supervision, treatment, work, restitution, and skill development.

Introduction

Between 1993 and 2004, Montana's adult average daily inmate population more than doubled, increasing from 1,521 to 3,273 inmates. The Department of Corrections projects an adult male population of 3,434 and an adult female population of 476 by June 30, 2005.



To respond to the need for prison beds, Montana has helped fund three jail/prison facilities located in Cascade, Dawson, and Missoula Counties, and has contracted for inmate beds with a private prison located in Shelby. Additionally, the department has expanded community-based programs to most of the larger communities in the state.

Table 1
Department of Corrections Population Count and Capacities by Facility
At June 24, 2004

Facility/Program	Population Count	Rated Capacity	Operational Capacity	Emergency Capacity
Adult Males:				
Montana State Prison	1,417	941	1,407	1,445
Dawson County Regional Prison	139	72	141	144
Cascade County Regional Prison	148	76	149	152
Missoula Assessment & Sanctions Center	142	72	141	144
Crossroads Correctional Center	419	318	475	480
Treasure State Correctional Training Center	56	60	60	60
Warm Springs Addiction Treatment & Change	118	118	118	118
Pre-Release	512	498	498	602
Total Adult Males in Department Facilities	2,951	2,155	2,989	3,145
County Jails	151	N/A	N/A	N/A
Total Adult Males	3,102	N/A	N/A	N/A
Adult Females:				
Montana Women's Prison	201	214	209	231
Warm Springs Addiction Treatment & Change	22	22	22	22
Pre-Release	134	133	133	146
Total Adult Females in Department Facilities	357	369	364	399
County Jails	35	N/A	N/A	N/A
Total Adult Females	392	N/A	N/A	N/A
Juveniles:				
Pine Hills Youth Correctional Facility	92	144	144	144
Riverside Youth Correctional Facility	19	20	20	20
Transition Center	10	14	14	17
Total Juveniles	121	178	178	181
Total Population in Facilities	3,615			
Intensive Supervision Program	271			
Probation & Parole	6,966			
TOTAL POPULATION	10,852			

Rated Capacity: The facility population level for which the facility was designed. This capacity assumes single inmate cell occupancy.

Operational Capacity: The maximum facility population level at which daily operations and programs can be conducted safely and effectively. This capacity assumes some cell "double-bunking."

Emergency Capacity: The facility population level that, when reached, has the distinct possibility of compromising the classification system, the safety of staff and offenders, and the security of the facility.

N/A: Not applicable.

Source: Created by the Legislative Audit Division from department records.

Introduction

The department currently operates five programs: Administration and Support Services, Adult Community Corrections, Juvenile Corrections, Secure Custody Facilities, and Montana Correctional Enterprises (MCE). The following paragraphs describe the organization of the department at June 30, 2004. The budgeted fiscal year 2003-04 full-time equivalent (FTE) numbers listed for each program were obtained from the Legislative Fiscal Divisions Fiscal Report for the 2005 Biennium and department personnel.

Administration and Support Services

The Administration and Support Services program (94.50 FTE) accounts for expenditures for the Director's Office, the Centralized Services Division, and the administratively attached Board of Pardons and Parole. The Director's Office provides leadership and management support to all department facilities and divisions. The Director's Office provides training, quality assurance, investigation, victim's information, and policy functions. Centralized Services provides fiscal, information technology, statistical, human resource, and legal services. The Board of Pardons and Parole oversees Montana's inmate parole and furlough programs. The board also reviews requests for executive clemency and makes recommendations to the Governor concerning those requests.

Community Corrections

The Community Corrections program (205 FTE) accounts for expenditures for the supervision and alternative activities for adult offenders, including the Interstate Compact Unit, Adult Probation and Parole, Treasure State Correctional Training Center, Warm Springs Addiction Treatment and Change (WATCH) DUI Facility, and the adult prerelease unit. This division provides supervision for approximately 75 percent of the more than 10,000 adult offenders in the state correctional system.

Juvenile Corrections

The Juvenile Corrections program (202.85 FTE) accounts for expenditures for all state operated youth programs, including the Pine Hills Youth Correctional Facility, Riverside Youth Correctional Facility, and Juvenile Community Corrections Bureau, including parole services and youth transition centers. The program is also responsible for administering the Juvenile Interstate Compact for youth on probation or parole, licensing juvenile detention facilities, and juvenile placement and related financial

services. In fiscal year 2004-05 the program name was changed to Youth Services.

Secure Custody Facilities

The Secure Custody Facilities program (578.45 FTE) includes expenditures for the Montana State Prison (MSP), Montana Women's Prison (MWP), and contract facilities, such as the Crossroads Correctional Center, Cascade and Dawson County Regional Prisons, and Missoula Assessment and Sanctions Center. These facilities provide for the custody, treatment, training, and rehabilitation of about 25 percent of the more than 10,000 offenders in the state correctional system. Facility locations include facilities in Missoula, Great Falls, Glendive, Shelby, Billings, and Deer Lodge.

Montana Correctional Enterprise

The Montana Correctional Enterprise (MCE) program (56 FTE) accounts for expenditures of the ranch, dairy, vocational/training, and industries programs. The ranch and dairy provide dairy products to state institutions and beef cattle, grain, and surplus raw milk to the open market. The vocational/training program provides equipment and vehicle repair to state agencies and vocational education programs. The industries program provides manufactured products (furniture, upholstery, print, signs, and license plates) to state agencies and local governments. A local dealer network is used to sell products manufactured by inmates.

Prior Audit Recommendations

Our previous audit report of the department, covering the two fiscal years ended June 30, 2002, contained seven recommendations. The department concurred with six recommendations and partially concurred with one recommendation contained in the previous report. Of these recommendations, five have been implemented, one is no longer applicable due to a change in state law, and one has not been implemented. The recommendation not implemented relates to contracts not being signed in a timely manner and is discussed beginning on page 10 of this report.

Findings and Recommendations

Controls Over Accounts Receivable

The department does not have adequate controls in place to ensure the accounts receivable balance on the accounting records is equal to the detailed records for amounts the department overpaid juvenile correction providers.

An effective control system includes a timely reconciliation of the account balance on the accounting system to the detailed records. Because this control was not in place, receivables recorded on the department's accounting records of \$1,055,785 throughout April 2004 were overstated by \$879,192. Since the normal entry used to record the activity is an offset to expenditures, the potential effect is that expenditures and fund balance are also misstated.

The system used by the department to track juvenile placements and pay providers is shared with the Department of Public Health and Human Services (DPHHS). Overpayments occur when placements are not changed on the Child and Adult Protective Services (CAPS) system until after providers are paid. During our audit period, all receivable transactions recorded on the accounting records were generated by the CAPS system or entered directly on the accounting system by DPHHS personnel. According to a spreadsheet compiled from CAPS, which is the only location that detailed information is maintained of amounts providers owe, the balance of the amount outstanding for overpayments in April 2004 was \$175,649.

Department personnel were aware of this problem, but believed DPHHS was going to correct a programming error in CAPS identified in January 2003. Department personnel indicated they must request DPHHS to make adjustments to CAPS because they do not have the access to do so themselves. After we discussed this problem with department officials during the audit, they researched receivable transactions and discovered hundreds of erroneous accounting system entries generated by the CAPS system and DPHHS personnel. Department personnel said the three most common errors identified involve:

Findings and Recommendations

- 1) receivable transactions recorded on the department's accounting system related to services provided to juveniles in the care of DPHHS;
- 2) payments to clear department receivables applied to DPHHS, rather than department accounting records; and
- 3) entries to establish an account receivable on the department's accounting records after payment was received.

After discovering these errors, department officials wrote a memorandum to DPHHS outlining their concerns and drafted a memorandum of understanding with DPHHS to clarify roles and lines of responsibility for this activity. In addition, department and DPHHS personnel researched errors and made correcting entries to reduce receivables on the department's accounting records at June 30, 2004 by \$817,969. Most of these adjustments were to reflect collections of the department's receivables on its accounting records instead of DPHHS' records.

At June 30, 2004, the department's receivable balance on the accounting records was \$243,896. Department personnel prepared a spreadsheet from CAPS in August 2004, but had not yet compared the spreadsheet to the accounting records to identify and resolve the remaining differences. The department needs to complete its research and record all necessary entries to the accounting system to properly account for its activity. In addition, controls should be established to reconcile the detailed accounts receivable records to the accounting system and to periodically review the accounting system to ensure the accuracy and completeness of receivable balances and related activity.

Recommendation #1

We recommend the department:

- A. Work with DPHHS to record appropriate adjusting entries on the accounting system.**
- B. Establish controls over accounts receivable to ensure balances on the accounting records are accurate.**

Findings and Recommendations

Probation and Parole Officer Training

The department does not have adequate controls to ensure probation and parole officers obtain the training required by state law and department policy.

Section 46-23-1003, MCA, requires each probation and parole officer to obtain 16 hours of training each year in subjects relating to the powers and duties of probation officers. Department policy also requires probation and parole officers to complete 40 hours of standard in-service training annually, of which 16 hours must be position specific.

After reviewing all 132 probation and parole officer's training records for fiscal year 2002-03, we found 52 (40%) officers did not complete 16 hours of the statutorily required training and 101 (77%) did not complete 40 hours of training as required by department policy. These numbers include 20 officers, according to department personnel, who may not have met annual training requirements because they were hired or terminated employment during the fiscal year.

The training unit sends quarterly training reports for all probation and parole officers to the six Regional Administrators, who are responsible for ensuring the officers' training requirements are met. Department personnel said that, in addition to establishing controls to ensure training requirements are met, they also need to ensure all training the officers receive is documented on the training system. Department officials said the probation and parole officers have adequate funding and, in most cases, sufficient time to complete the required training.

Recommendation #2

We recommend the department implement controls to ensure probation and parole officers receive the training required by state law and department policy.

Findings and Recommendations

Contract Procedures

The department has not implemented policy to sign contracts before the effective date and did not put two contracts out for bid as required by state law.

In our prior three audits of the department, we made recommendations that the department implement and enforce contracting policies and procedures to ensure contracts are signed in a timely manner. In our last audit, we also recommended the department ensure facilities comply with department policies and procedures for contracts exceeding \$5,000. The department concurred with the recommendation. During our current audit, we determined the department has not implemented the prior recommendation.

We reviewed 16 contracts and found nine were signed prior to the contract effective date, three were signed within ten days following the effective date, two were signed one month after the effective date, and two were signed six months after the effective date. As noted in our prior audit, without signed contracts, there is no documented understanding of each party's rights and responsibilities for the work to be performed. The department may have increased liability if it does not have signed contracts describing the responsibilities of contractors and the department.

We reviewed a list of contracts compiled by the department and determined two of the five contracts over \$5,000 that should have been bid during our audit period were not bid as required by the department's contract policy and state law. The two contracts exceeding the \$5,000 threshold totaled \$225,444.

In its response to the previous audit, the department said it would update the contract manual and provide training on that manual. Department personnel indicated that a purchasing manual section on contracts has been drafted, but not finalized. A department official cited workload issues, given the contract function is staffed with 1.5 FTE. The official also noted the four contracts signed a month or more after the effective date of the contract were medical contracts,

Findings and Recommendations

which typically take longer to negotiate. Department personnel should anticipate the longer negotiation time needed for medical services and start the contracting process earlier.

Recommendation #3

We recommend the department:

- A. Implement and enforce contracting policy to ensure contracts are signed in a timely manner.**
- B. Comply with state law and department policies and procedures for bidding contracts exceeding \$5,000.**

Untimely Non-Treasury Cash Account Reconciliations

The department did not reconcile three of six non-treasury cash accounts tested in a timely manner.

Department policy states the department will establish, utilize, and account for non-treasury cash accounts as outlined in the Montana Operations Manual (MOM). The department has established several non-treasury cash accounts, primarily to track inmate accounts and victim's restitution.

We found reconciliations were not performed in a timely manner for three of six non-treasury cash accounts tested. In fiscal year 2002-03, reconciliations of eight months of inmate accounts for a small facility were performed on the same day, resulting in seven late reconciliations. During fiscal year 2002-03, two reconciliations for another facility were more than two months late.

The department became responsible for the collection of victims' restitution in October 2003. During our testing, reconciliations of this account were over six months late. Agency personnel explained they were waiting for a transaction ledger to be built into the automated restitution system. This was not created in time to complete reconciliations by fiscal year end, so they started to

Findings and Recommendations

reconcile the account using a manually created spreadsheet. The account was reconciled through June 30, 2004 by fiscal year end.

According to the MOM, a timely reconciliation should be performed to safeguard cash. The department is responsible for maintaining the inmate accounts and victim restitution account to ensure the records are in sufficient detail to support the amount recorded in the custodian account.

Recommendation #4

We recommend the department strengthen non-treasury cash account controls and improve compliance with state policy by performing timely account reconciliations.

Independent Auditor's Report & Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Department of Corrections for each of the fiscal years ended June 30, 2004 and 2003. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Corrections for each of the fiscal years ended June 30, 2004 and 2003, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

August 31, 2004

DEPARTMENT OF CORRECTIONS
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND BALANCE: July 1, 2003	\$ (4,059,872)	\$ 512,581	\$ (4,984)	\$ 11,819,702	\$ 3,862,243	\$ 0
PROPERTY HELD IN TRUST: July 1, 2003						\$ 778,063
ADDITIONS						
Budgeted Revenues & Transfers-In	73,927	2,753,305	1,728,244	5,099,261	2,935,371	
NonBudgeted Revenues & Transfers-In	(64,230)	582		41,244	16,609	
Prior Year Revenues & Transfers-In Adjustments	69,585	75,189				
Direct Entries to Fund Balance	102,704,245	55,298	33,276	(26,561)		
Additions to Property Held in Trust						4,311,222
Total Additions	<u>102,783,527</u>	<u>2,884,374</u>	<u>1,761,520</u>	<u>5,113,944</u>	<u>2,951,980</u>	<u>4,311,222</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	104,722,126	2,681,025	1,756,536	4,554,637	2,965,316	
NonBudgeted Expenditures & Transfers-Out	74,512			337,969	4,018	
Prior Year Expenditures & Transfers-Out Adjustments	(452,880)	12,338		(270,212)	(51,853)	
Reductions in Property Held in Trust						4,033,115
Total Reductions	<u>104,343,758</u>	<u>2,693,363</u>	<u>1,756,536</u>	<u>4,622,394</u>	<u>2,917,481</u>	<u>4,033,115</u>
FUND BALANCE: June 30, 2004	\$ (5,620,103)	\$ 703,592	\$ 0	\$ 12,311,252	\$ 3,896,742	\$ 0
PROPERTY HELD IN TRUST: June 30, 2004						\$ 1,056,170

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund
FUND BALANCE: July 1, 2002	\$ (5,580,980)	\$ 696,699	\$ (2,919)	\$ 14,674,265	\$ 3,873,719	\$ 0
PROPERTY HELD IN TRUST: July 1, 2002						\$ 392,512
ADDITIONS						
Budgeted Revenues & Transfers-In		2,347,564	2,306,893	4,501,941	2,675,749	
NonBudgeted Revenues & Transfers-In	(3,453)	368		9,915	10,979	
Prior Year Revenues & Transfers-In Adjustments	46,766	65,000	(76,469)			
Direct Entries to Fund Balance	97,609,870	19,396	(1,342,049)	(2,821,431)		
Additions to Property Held in Trust						3,520,050
Total Additions	<u>97,653,183</u>	<u>2,432,328</u>	<u>888,375</u>	<u>1,690,425</u>	<u>2,686,728</u>	<u>3,520,050</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	95,768,931	2,510,923	897,066	4,716,933	2,503,377	
NonBudgeted Expenditures & Transfers-Out	107,076	39,024		(3,012)	244,481	
Prior Year Expenditures & Transfers-Out Adjustments	256,068	66,499	(6,626)	(168,933)	(49,654)	
Reductions in Property Held in Trust						3,134,499
Total Reductions	<u>96,132,075</u>	<u>2,616,446</u>	<u>890,440</u>	<u>4,544,988</u>	<u>2,698,204</u>	<u>3,134,499</u>
FUND BALANCE: June 30, 2003	\$ <u>(4,059,872)</u>	\$ <u>512,581</u>	\$ <u>(4,984)</u>	\$ <u>11,819,702</u>	\$ <u>3,862,243</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: June 30, 2003						\$ <u>778,063</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Taxes	\$ 3,189	\$ 582				\$ 3,771
Charges for Services		1,258,705				1,258,705
Sale of Documents, Merchandise and Property		1,175,565		\$ 5,135,805	\$ 2,951,980	9,263,350
Rentals, Leases and Royalties				4,700		4,700
Contributions and Premiums	439					439
Miscellaneous	75,654					75,654
Other Financing Sources		394,224				394,224
Federal			\$ 1,728,244			1,728,244
Total Revenues & Transfers-In	79,282	2,829,076	1,728,244	5,140,505	2,951,980	12,729,087
Less: Nonbudgeted Revenues & Transfers-In	(64,230)	582		41,244	16,609	(5,795)
Prior Year Revenues & Transfers-In Adjustments	69,585	75,189				144,774
Actual Budgeted Revenues & Transfers-In	73,927	2,753,305	1,728,244	5,099,261	2,935,371	12,590,108
Estimated Revenues & Transfers-In	101,000	6,806,056	4,147,591	11,273,500	6,000,000	28,328,147
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (27,073)	\$ (4,052,751)	\$ (2,419,347)	\$ (6,174,239)	\$ (3,064,629)	\$ (15,738,039)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Charges for Services	\$ (1,000)	\$ (544,242)		\$ (1,150,000)		\$ (1,695,242)
Sale of Documents, Merchandise and Property		(2,965,733)		(5,005,439)	\$ (3,064,629)	(11,035,801)
Rentals, Leases and Royalties				(18,800)		(18,800)
Miscellaneous	(26,073)	(50,000)				(76,073)
Grants, Contracts, Donations and Abandonments		(360,000)				(360,000)
Other Financing Sources		(132,776)				(132,776)
Federal			\$ (2,419,347)			(2,419,347)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (27,073)	\$ (4,052,751)	\$ (2,419,347)	\$ (6,174,239)	\$ (3,064,629)	\$ (15,738,039)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Taxes	\$ 1,968	\$ 368				\$ 2,336
Charges for Services	(479)	961,560	\$ 1,955	\$ 96,123		1,059,159
Sale of Documents, Merchandise and Property		1,086,554		4,268,528	\$ 2,686,728	8,041,810
Rentals, Leases and Royalties				5,950		5,950
Miscellaneous	41,824					41,824
Other Financing Sources		364,450				364,450
Federal			2,228,469			2,228,469
Capital Contributions				141,255		141,255
Total Revenues & Transfers-In	<u>43,313</u>	<u>2,412,932</u>	<u>2,230,424</u>	<u>4,511,856</u>	<u>2,686,728</u>	<u>11,885,253</u>
Less: Nonbudgeted Revenues & Transfers-In	(3,453)	368		9,915	10,979	17,809
Prior Year Revenues & Transfers-In Adjustments	<u>46,766</u>	<u>65,000</u>	<u>(76,469)</u>			<u>35,297</u>
Actual Budgeted Revenues & Transfers-In	0	2,347,564	2,306,893	4,501,941	2,675,749	11,832,147
Estimated Revenues & Transfers-In		4,058,550	2,308,957	12,703,136	3,430,000	22,500,643
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 0</u>	<u>\$ (1,710,986)</u>	<u>\$ (2,064)</u>	<u>\$ (8,201,195)</u>	<u>\$ (754,251)</u>	<u>\$ (10,668,496)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Charges for Services		\$ (1,582,972)		\$ (1,468,877)		\$ (3,051,849)
Sale of Documents, Merchandise and Property		(142,464)		(6,426,523)	\$ (754,251)	(7,323,238)
Rentals, Leases and Royalties				(22,050)		(22,050)
Other Financing Sources		14,450				14,450
Federal			\$ (2,064)			(2,064)
Capital Contributions				(283,745)		(283,745)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 0</u>	<u>\$ (1,710,986)</u>	<u>\$ (2,064)</u>	<u>\$ (8,201,195)</u>	<u>\$ (754,251)</u>	<u>\$ (10,668,496)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADMINISTRATION AND SUPPORT SERVICES	COMMUNITY CORRECTIONS	JUVENILE CORRECTIONS	MONTANA CORRECTIONAL ENTERPRISES	SECURE CUSTODY FACILITIES	TOTAL
Personal Services						
Salaries	\$ 3,115,874	\$ 6,958,493	\$ 6,638,898	\$ 1,723,082	\$ 19,068,322	\$ 37,504,669
Hourly Wages			20,478	322,995	304,415	647,888
Other Compensation	20,050					20,050
Employee Benefits	882,469	2,364,219	2,214,411	527,797	6,520,635	12,509,531
Personal Services-Other				(20,862)	(3,980)	(24,842)
Total	<u>4,018,393</u>	<u>9,322,712</u>	<u>8,873,787</u>	<u>2,553,012</u>	<u>25,889,392</u>	<u>50,657,296</u>
Operating Expenses						
Other Services	5,211,618	14,526,253	1,314,900	90,203	21,569,112	42,712,086
Supplies & Materials	373,650	430,835	808,854	1,944,687	5,635,991	9,194,017
Communications	89,800	209,509	73,559	17,260	177,587	567,715
Travel	145,028	70,521	64,761	16,963	88,286	385,559
Rent	230,865	1,069,594	138,613	16,402	136,848	1,592,322
Utilities		57,433	339,724	181,441	884,616	1,463,214
Repair & Maintenance	66,276	71,235	248,329	240,375	219,854	846,069
Other Expenses	64,967	44,680	45,471	608,480	416,713	1,180,311
Goods Purchased For Resale			5,740	681,563	1,082,893	1,770,196
Total	<u>6,182,204</u>	<u>16,480,060</u>	<u>3,039,951</u>	<u>3,797,374</u>	<u>30,211,900</u>	<u>59,711,489</u>
Equipment & Intangible Assets						
Equipment			31,782	6,369	106,377	144,528
Total			<u>31,782</u>	<u>6,369</u>	<u>106,377</u>	<u>144,528</u>
Capital Outlay						
Other Improvements				(36,373)		(36,373)
Total				<u>(36,373)</u>		<u>(36,373)</u>
Benefits & Claims						
From State Sources			5,536,256			5,536,256
From Federal Sources			28,291			28,291
Total			<u>5,564,547</u>			<u>5,564,547</u>
Debt Service						
Bonds					60,286	60,286
Loans					15,051	15,051
Capital Leases				216,708		216,708
Total				<u>216,708</u>	<u>75,337</u>	<u>292,045</u>
Total Expenditures & Transfers-Out	\$ <u>10,200,597</u>	\$ <u>25,802,772</u>	\$ <u>17,510,067</u>	\$ <u>6,537,090</u>	\$ <u>56,283,006</u>	\$ <u>116,333,532</u>
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 9,601,771	\$ 25,460,586	\$ 15,368,891	\$ 1,646,710	\$ 52,265,800	\$ 104,343,758
State Special Revenue Fund	355,263	305,048	778,908		1,254,144	2,693,363
Federal Special Revenue Fund	149,158	37,138	1,362,268		207,972	1,756,536
Enterprise Fund	85,528			4,536,866		4,622,394
Internal Service Fund	8,877			353,514	2,555,090	2,917,481
Total Expenditures & Transfers-Out	<u>10,200,597</u>	<u>25,802,772</u>	<u>17,510,067</u>	<u>6,537,090</u>	<u>56,283,006</u>	<u>116,333,532</u>
Less: Nonbudgeted Expenditures & Transfers-Out				406,205	10,294	416,499
Prior Year Expenditures & Transfers-Out Adjustments	<u>58,893</u>	<u>14,217</u>	<u>(508,081)</u>	<u>(278,590)</u>	<u>(49,045)</u>	<u>(762,606)</u>
Actual Budgeted Expenditures & Transfers-Out	10,141,704	25,788,555	18,018,148	6,409,475	56,321,757	116,679,639
Budget Authority	10,724,545	25,843,355	19,931,606	8,554,394	59,725,491	124,779,391
Unspent Budget Authority	\$ <u>582,841</u>	\$ <u>54,800</u>	\$ <u>1,913,458</u>	\$ <u>2,144,919</u>	\$ <u>3,403,734</u>	\$ <u>8,099,752</u>
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 106,133	\$ 40,869	\$ 45,180	\$ 4,822	\$ 3,026,622	\$ 3,223,626
State Special Revenue Fund	360,000		497		179,526	540,023
Federal Special Revenue Fund	116,708	13,931	1,867,781	100,000	110,481	2,208,901
Enterprise Fund				1,963,854		1,963,854
Internal Service Fund				76,243	87,105	163,348
Unspent Budget Authority	\$ <u>582,841</u>	\$ <u>54,800</u>	\$ <u>1,913,458</u>	\$ <u>2,144,919</u>	\$ <u>3,403,734</u>	\$ <u>8,099,752</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF CORRECTIONS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADMINISTRATION AND SUPPORT SERVICES	COMMUNITY CORRECTIONS	JUVENILE CORRECTIONS	MONTANA CORRECTIONAL ENTERPRISES	SECURE CUSTODY FACILITIES	Total
Personal Services						
Salaries	\$ 3,017,102	\$ 6,892,845	\$ 6,513,104	\$ 1,877,080	\$ 18,470,504	\$ 36,770,635
Hourly Wages			19,953	363,398	322,535	705,886
Other Compensation	14,677	60				14,737
Employee Benefits	793,380	2,155,791	2,030,310	532,481	5,823,690	11,335,652
Personal Services-Other				25,092	1,287	26,379
Total	<u>3,825,159</u>	<u>9,048,696</u>	<u>8,563,367</u>	<u>2,798,051</u>	<u>24,618,016</u>	<u>48,853,289</u>
Operating Expenses						
Other Services	3,946,815	13,604,044	1,197,727	69,100	18,355,657	37,173,343
Supplies & Materials	351,819	302,180	657,117	1,501,164	4,254,130	7,066,410
Communications	74,138	218,332	59,079	11,907	137,077	500,533
Travel	71,486	49,181	53,823	19,513	65,000	259,003
Rent	232,043	1,309,381	101,964	21,359	105,686	1,770,433
Utilities		41,030	302,535	183,027	814,370	1,340,962
Repair & Maintenance	58,025	44,762	75,094	283,683	233,530	695,094
Other Expenses	228,735	12,172	36,010	505,679	393,585	1,176,181
Goods Purchased For Resale			5,937	613,582	1,040,430	1,659,949
Total	<u>4,963,061</u>	<u>15,581,082</u>	<u>2,489,286</u>	<u>3,209,014</u>	<u>25,399,465</u>	<u>51,641,908</u>
Equipment & Intangible Assets						
Equipment			3,445		6,541	9,986
Total			<u>3,445</u>		<u>6,541</u>	<u>9,986</u>
Capital Outlay						
Land & Interest In Land				11,697		11,697
Other Improvements				(11,697)		(11,697)
Total				<u>0</u>		<u>0</u>
Benefits & Claims						
From State Sources			6,034,946			6,034,946
From Federal Sources			46,015			46,015
Total			<u>6,080,961</u>			<u>6,080,961</u>
Debt Service						
Loans					75,337	75,337
Capital Leases	<u>3,964</u>			<u>216,708</u>		<u>220,672</u>
Total	<u>3,964</u>			<u>216,708</u>	<u>75,337</u>	<u>296,009</u>
Total Expenditures & Transfers-Out	\$ <u>8,792,184</u>	\$ <u>24,629,778</u>	\$ <u>17,137,059</u>	\$ <u>6,223,773</u>	\$ <u>50,099,359</u>	\$ <u>106,882,153</u>
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 8,570,001	\$ 24,255,960	\$ 15,435,997	\$ 1,353,105	\$ 46,517,012	\$ 96,132,075
State Special Revenue Fund	151,358	362,821	922,904		1,179,363	2,616,446
Federal Special Revenue Fund	5,644	10,997	778,158		95,641	890,440
Enterprise Fund	60,409			4,484,579		4,544,988
Internal Service Fund	<u>4,772</u>			<u>386,089</u>	<u>2,307,343</u>	<u>2,698,204</u>
Total Expenditures & Transfers-Out	8,792,184	24,629,778	17,137,059	6,223,773	50,099,359	106,882,153
Less: Nonbudgeted Expenditures & Transfers-Out		39,024	2	130,714	217,829	387,569
Prior Year Expenditures & Transfers-Out Adjustments	<u>(55,311)</u>	<u>32,550</u>	<u>296,566</u>	<u>(176,209)</u>	<u>(242)</u>	<u>97,354</u>
Actual Budgeted Expenditures & Transfers-Out	8,847,495	24,558,204	16,840,491	6,269,268	49,881,772	106,397,230
Budget Authority	<u>9,081,172</u>	<u>24,657,491</u>	<u>21,384,128</u>	<u>8,390,521</u>	<u>51,177,846</u>	<u>114,691,158</u>
Unspent Budget Authority	\$ <u>233,677</u>	\$ <u>99,287</u>	\$ <u>4,543,637</u>	\$ <u>2,121,253</u>	\$ <u>1,296,074</u>	\$ <u>8,293,928</u>
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 233,677	\$ 37,768	\$ 2,352,977	\$ 52,431	\$ 1,108,757	\$ 3,785,610
State Special Revenue Fund		4,439	13,906		10,590	28,935
Federal Special Revenue Fund		57,080	2,176,754		81,389	2,315,223
Enterprise Fund				1,905,877		1,905,877
Internal Service Fund				<u>162,945</u>	<u>95,338</u>	<u>258,283</u>
Unspent Budget Authority	\$ <u>233,677</u>	\$ <u>99,287</u>	\$ <u>4,543,637</u>	\$ <u>2,121,253</u>	\$ <u>1,296,074</u>	\$ <u>8,293,928</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Department of Corrections

Notes to the Financial Schedules for the Two Fiscal Years Ended June 30, 2004

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue and Federal Special Revenue) and certain liabilities of defined benefit pension plans and certain post employment healthcare plans. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Notes to the Financial Schedules

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Department accounts are organized in funds according to state law applicable at the time transactions were recorded. The department uses the following funds:

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund. The majority of the department's activity is recorded in this fund.

State Special Revenue Fund - to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The department has several State Special Revenue Funds that account for activities, including supervision fees, canteen, inmate welfare, restitution, income and interest from state lands, and third party contributions for juvenile placement.

Federal Special Revenue Fund – to account for federal funds received by the department, including funds for Violent Offender Incarceration and Truth in Sentencing (VOITIS), substance abuse treatment, and various education programs.

Proprietary Fund Category

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Department Enterprise Funds include the ranch and industries programs at the Montana State Prison and the industries program at the Montana Women's Prison.

Notes to the Financial Schedules

Internal Service Fund – to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. Department Internal Service Funds include the Montana State Prison Industries Training and Cook/Chill Programs.

Fiduciary Fund Category

Agency Fund – to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Department fiduciary funds include moneys belonging to inmates of facilities and restitution for victims. The victim's restitution program started with a pilot project, prior to going into effect on October 1, 2003.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2003 and June 30, 2004.

3. Direct Entries to Fund Balance

Direct entries to fund balance in the General, State Special Revenue, and Federal Special Revenue fund types include entries generated by the state's accounting system to reflect the flow of resources within individual funds shared by separate agencies. Direct entries to fund balance in the Enterprise fund type during fiscal year 2002-03 were to correct the accounting records for retired fixed assets.

Department Response

DEPARTMENT OF CORRECTIONS



JUDY MARTZ, GOVERNOR

1539 11TH AVENUE

STATE OF MONTANA

(406) 444-3930
FAX (406) 444-4920

PO BOX 201301
HELENA, MONTANA 59620-1301

October 12, 2004

RECEIVED

OCT 13 2004

LEGISLATIVE AUDIT DIV.

Mr. Scott A. Seacat
Legislative Auditor
Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

Re: Response to Legislative Audit Recommendations

Dear Mr. Seacat:

Thank you for the opportunity to respond to the financial-compliance audit report for the Department of Corrections. We have reviewed the recommendations contained in the report, and concur with each of the findings. Our responses to each recommendation follow:

RECOMMENDATION #1:

We recommend the department:

- A. Work with DPHHS to record appropriate adjusting entries on the accounting system.
- B. Establish controls over accounts receivable to ensure balances on the accounting records are accurate.

Response:

Concur. The department has dedicated 1.00 FTE to focus solely on the activity associated with the CAPS/SABHRS interface. The department has established procedure to perform monthly reconciliation of SABHRS activity to Youth Services Division CAPS overpayment activity spreadsheet to ensure all overpayment activity is accurately reflected on SABHRS. Additionally, the department will work with staff at DPHHS and Northrup Grumman to obtain access for department personnel to input and track DOC overpayment activity, rather than rely on DPHHS staff to perform the task.

RECOMMENDATION #2:

We recommend the department implement controls to ensure probation and parole officers receive the training required by state law and department policy

Response:

Concur. Community Corrections division will require that all training requests must be reviewed and approved by the CCD Training Officer. The CCD Training Officer will be required to track all training attended by individual to ensure all training requirements are met on an annual basis.

RECOMMENDATION #3:

We recommend the department:

- A. Implement and enforce contracting policy to ensure contracts are signed in a timely manner.
- B. Comply with state law and department policies and procedures for bidding contracts exceeding \$5,000.

Response:

Concur. The department has completed a Contracts section in its purchasing manual, and an electronic copy of the manual is placed on the department's web page. A notice to all employees will be sent to inform them of the availability of this manual electronically. Additionally, the department policy for contracts has been updated to include timeline requirements. A formalized presentation by the Department's Legal Services Bureau for the DOC Management Team to discuss contract liability issues is scheduled for November 2004.

Language will be added to each contract that states: "Upon expiration of this contract, and in the absence of a new written agreement, the terms listed herein shall continue to govern the agreement between the parties until such time as a new Contract is signed."

As contracts come up for renewal the contract will be processed in accordance with procurement statutes.

RECOMMENDATION #4:

We recommend the department strengthen non-treasury cash account controls and improve compliance with state policy by performing timely account reconciliation.


Response:

Concur. Department staff is required to perform monthly reconciliation of all non-treasury cash accounts. Fiscal Bureau staff will request that a contact person for each facility be appointed to ensure the facility's compliance with requirements regarding non-treasury cash accounts.

All non-treasury account bank statements will be sent to the Fiscal Bureau rather than to the facility in which the account is located. This will encourage timely reconciliation.

We sincerely appreciate the legislative staff time devoted to this audit. They were consummate professionals throughout the process, and it's evident that the best interest of the public is at the heart of all they do. I am equally proud of my staff, as they overcame many daunting challenges during this critical state budget shortfall to achieve an unqualified opinion. We look forward to working with you in the future as we continue in our mission of public safety and trust.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Slaughter", with a stylized, looping flourish at the end.

Bill Slaughter
Director